Commodity Spotlight

Agricultural Research Service, USDA

# Rice Prices Remain Low Despite Smaller U.S. Supplies

Rice prices in the U.S. were the lowest in nearly 7 years at the start of the August-July 2000/01 market year. While prices have risen slightly since July, they are still below levels reported in April. The 2000/01 U.S. season-average farm price is projected at $5.75 to $6.25 per hundredweight (cwt), the lowest since 1992/93.

The price weakness coincides with production and total supply levels that are below year-earlier records, with ending stocks expected to dip as well. Extremely low prices on the international market are the main factor preventing U.S. prices from rising.

The export price for Thai 100-percent grade B—similar to U.S. southern long grain milled rice—averaged $185 per ton in September, the lowest in nearly 14 years. An abundance of exportable supplies worldwide and the absence of any significant production shortfall in a major importing country (except for Iran) are behind the weak international prices. Thai prices strengthened in early October due partly to weather problems in South and Southeast Asia, but have weakened again.

Because the U.S. exports around 40 percent of its rice crop, U.S. prices are sensitive to conditions in the international market. The U.S. is a reliable exporter of high-quality rice, accounting for about 12 percent of global exports, and is typically the third- or fourth-largest exporter. However, the U.S. faces stiff competition in global markets from low-cost Asian rice exporters. If U.S. prices rise relative to international levels, the U.S. price difference over major competitors widens, diminishing U.S. prospects in global markets.

### *U.S. Rice Prices Have Dropped Substantially*

U.S. prices for *rough (unmilled) rice* almost steadily declined from early 1999 through July 2000, a result of large supplies in the U.S. and weaker prices in international markets. In 1995/96 and 1996/97, U.S. prices were supported by lower U.S. supplies and strong international prices. Despite the Asian financial crisis that began in the summer of 1997, U.S. rough rice prices remained strong through the first half of 1998/99. This was due largely to record shipments of rough rice to South America in response to El Nino crop damage in the region.

Strong rice prices combined with declining prices for competing crops brought substantial expansion in U.S. rice plantings from 1997 through 1999. By 1999, U.S. rice plantings exceeded 3.5 million acres, the second largest on record. When 1999 planting intentions were announced in March, U.S. prices began a major decline. From March 1999 to March 2000, the monthly average cash price dropped $3.11 per cwt to $5.82. By July 2000, the monthly cash price for all rice was only $5.47 per cwt, the lowest since September 1993. Prices have strengthened slightly since then, reaching $5.66 per cwt by mid-September.

The price decline was most severe for long grain rice. However, in late summer, prices for long grain rice began to rise due to tight supplies of high-quality rice prior to the main harvest in the Delta, and to projections for a smaller crop in 2000/01. Long grain prices continued to strengthen in September and early October due to several large food aid purchases and farmers delaying selling rice. Some farmers have been reluctant to market their rice in the face of uncertainty about the size of the 2000 U.S. crop and events in international markets. Prices for medium grain rice, grown mostly in California, remained relatively high throughout 1999/2000 due to tight supplies, a result of several years of weak production in California in the late 1990's.

Prices for *milled rice*, the primary form of rice traded globally, have declined as well. While record U.S. rough rice exports to Latin America supported farm prices in 1997 and 1998, prices for U.S. milled rice started to decline in the summer of 1997 when Asian currencies collapsed. However, impacts of the 1997/98 El Nino in Southeast Asia supported international prices throughout 1998 as Indonesia and the Philippines made record purchases. This limited the drop in U.S. prices even though the U.S. was not a major supplier to either country.

By early 1999, the price-supporting effects of the 1997/1998 El Nino faded, causing Asian prices to spiral downward.

To remain competitive, U.S. prices had to decline as well. From January 1999 to January 2000, prices for southern long grain milled rice dropped 25 percent to $287 per ton. By late May, prices had dropped to $248 per ton, the lowest since the summer of 1987. A tightening of U.S. supplies prior to the 2000 harvest, followed by several food aid purchases in September and October have raised prices for U.S. long grain rice. By mid-October, price quotes for U.S. long grain milled rice had climbed to $276 per ton, the highest since April 2000.

In contrast to long grain milled rice, prices for California medium grain milled rice rose during 1998/99 and declined only slightly in 1999/2000, even with a larger California crop. By mid-summer 2000, prices for California medium grain rice began to drop more sharply on expectations of a record harvest. In late September, prices had fallen to $375 per ton, $66 below levels reported in mid-July.

### *U.S. Supplies Drop From 1999/2000 Record…*

The U.S. is the only major rice exporting country expecting a tight supply situation by the end of the 2000/01 (August-July) market year. By July 31, 2001, ending stocks are projected at 27.1 million cwt, down nearly 2 percent from a year earlier. This results in a stocks-to-use ratio of 13.3 percent, just fractionally above a year earlier.

U.S. production is well below the record crop of a year earlier. In 2000, U.S. rice plantings dropped 12 percent to 3.1 million acres, the lowest since 1996/97. The area contraction was driven largely by low rice prices at planting time, especially prices for long grain rice, which accounts for more than 70 percent of U.S. rice area and was responsible for almost all of the reduction. In addition, problems stemming from salt-water intrusion caused by early season drought likely contributed to less rice acreage in Louisiana. Short grain acreage—about 1 percent of total plantings—is also down. Medium grain plantings, making up more than one-fourth of U.S. rice acreage, actually rose, with California accounting for the bulk of the increase.

Although average yield is projected at a record 6,230 pounds per acre, total U.S. production is projected to drop 7 percent to 192.2 million cwt. As a result, even with beginning stocks up 25 percent from a year earlier to 27.5 million cwt, total U.S. rice supplies are projected to drop more than 3 percent from the 1999/2000 record to 230 million cwt, virtually the same as 1994/95, the second-largest crop on record.

Total use is projected to drop by 4 percent—to 203 million cwt. Exports, projected to fall 9 percent to 80 million cwt, will account for all of the decline. Milled rice shipments, where the U.S. faces its strongest competition from Asian exporters, are expected to account for almost all of the reduction. Exports of rough rice are expected to remain virtually unchanged. None of the Asian exporters ships rough rice, although Argentina and Uruguay export rough rice within Latin America.

In contrast to exports, domestic use is projected to increase fractionally to a record 122.9 million cwt. The domestic market is much less sensitive to price changes than the international market. Domestic buyers demand high-quality rice meeting tight specifications for appearance, consistency, and degree of milling, as well as taste and cooking attributes. This is true for all domestic uses—direct food use, beer, processed foods, and pet food.

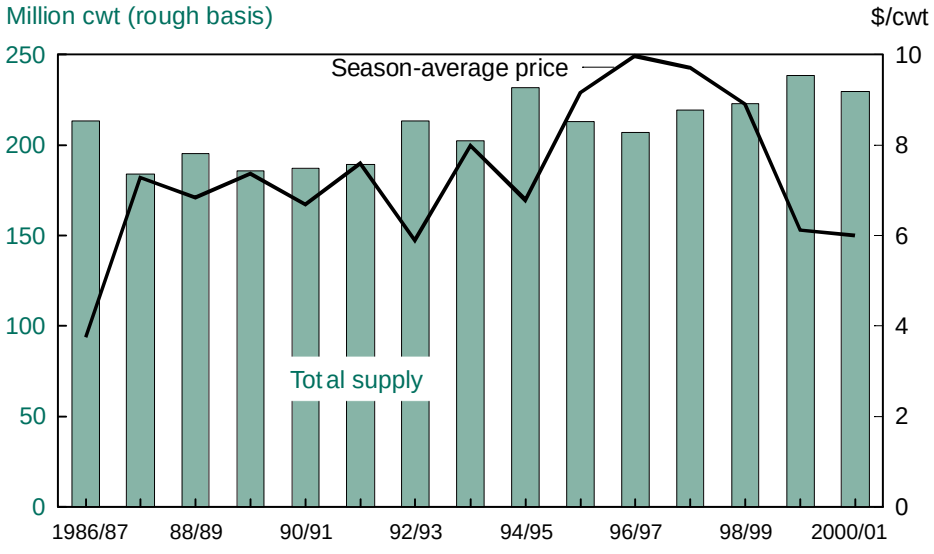
Few other suppliers can meet these standards, a major reason Asian exporters have not established a larger presence in the U.S. market. Except for high-quality aromatic rices from Thailand, India, and Pakistan, the U.S. imports very little Asian rice.

For the past 20 years, the domestic market has grown steadily and has made up a larger share of total use. In 2000/01 the domestic market is expected to account for more than 60 percent of total use, in contrast to 1980/81 when exports accounted for almost 60 percent of total use.

### *…With Long Grain Stocks The Tightest Since 1995/96*

The U.S. long grain market is projected to face an extremely tight supply situation by the end of the 2000/01 market year, due primarily to this season's smaller

**U.S. Farm Price for Rice Is Projected Lowest Since 1992/93 Even as Supply Slips**




Marketing year August-July. 2000/01 price is midpoint of projected price range. Supply is beginning stocks plus production plus imports.

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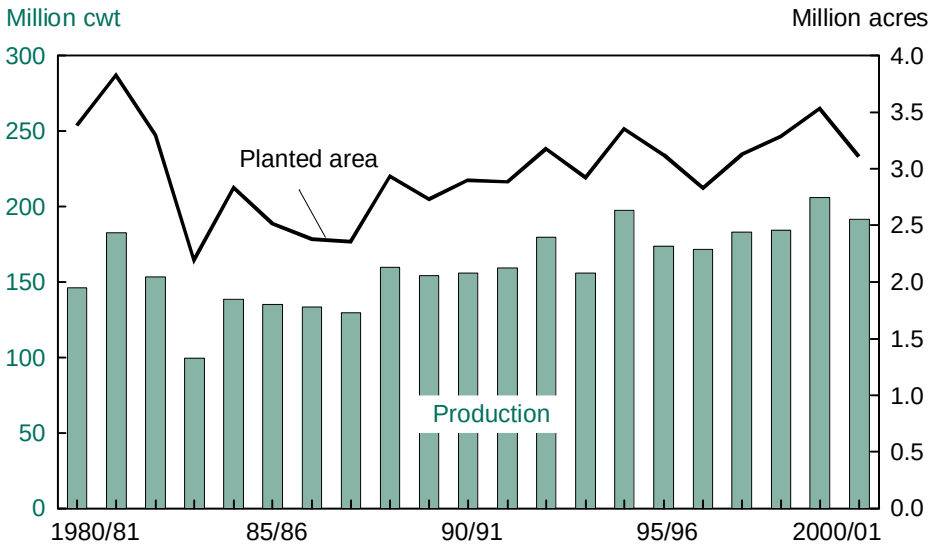
**U.S. Rice Crop to Decline in 2000/01 with Plantings Down 12 Percent**




Marketing year August-July. 2000/01 production projected.

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crop. Ending stocks of long grain rice are projected to drop almost 16 percent to 13 million cwt, the lowest since 1995/96. The stocks-to-use ratio is projected at 9.2 percent, the second lowest on record since supply and use were first reported by grain type in 1982/83.

The U.S. long grain crop is projected to drop 14 percent in 2000/01 to 130 million cwt, the smallest since 1997/98. Although beginning stocks were 11 percent larger than a year earlier, total long grain supplies are projected to drop almost 11 percent to 155 million cwt.

Long grain plantings dropped more than 17 percent from last season's record to 2.26 million acres, the smallest since 1996/97. The area contraction was driven largely by a sharp decline in prices. Between January 1999 and January 2000, price quotes for U.S. long grain rice dropped more than 40 percent to less than $5.50 per cwt. The completion of Brazil's record 1998 purchases, declining global prices, and a record 1999 U.S. long grain crop were responsible.

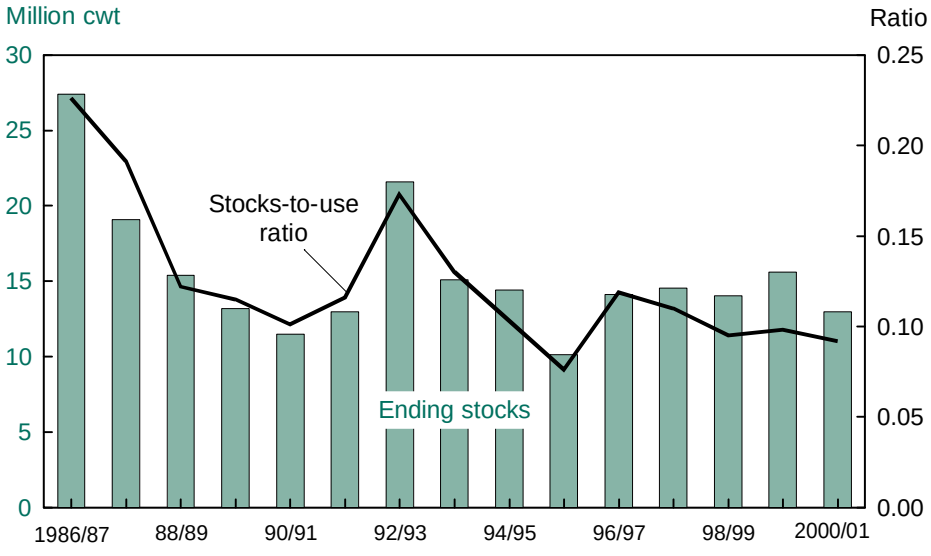
Total use of long grain rice is projected to drop 10 percent to 142 million cwt, with both exports and domestic use down substantially from a year earlier. In fact, U.S. long grain exports are projected to be the lowest since 1996/97, a result of smaller supplies and intense price competition with Asian exporters. In the domestic market, both brewers and some food processors will likely shift from long to medium grain rice due to changes in relative prices.

## *Medium/Short Grain Market Faces Bearish Outlook*

In contrast to the long grain market, the combined medium/short grain rice market is not confronting tight supplies. In fact, total supplies are projected to rise 16 percent to more than 73 million cwt, the largest since 1994/95. An increase of more than 50 percent in beginning stocks and a 14-percent jump in production to 61.7 million cwt are responsible for the larger supplies.

Combined medium/short grain plantings are estimated at 850,000 acres this year, up more than 6 percent from a year earlier and the largest since 1994/95. In California—where medium grain accounts for more than 95 percent of rice acreage—rice plantings are the largest since 1981 and projected to produce a record harvest. Medium grain prices, especially in California, were relatively strong at planting, a major factor in the area expansion. Medium grain prices had been supported for several years by tight supplies, a result of weather problems for several years in California and declining acreage in the South in 1997 and 1998.

**U.S. Long Grain Rice Stocks to Fall 17 Percent in 2000/01, Drawing Down Stocks-to-Use Ratio**




Marketing year August-July. 2000/01 projected.

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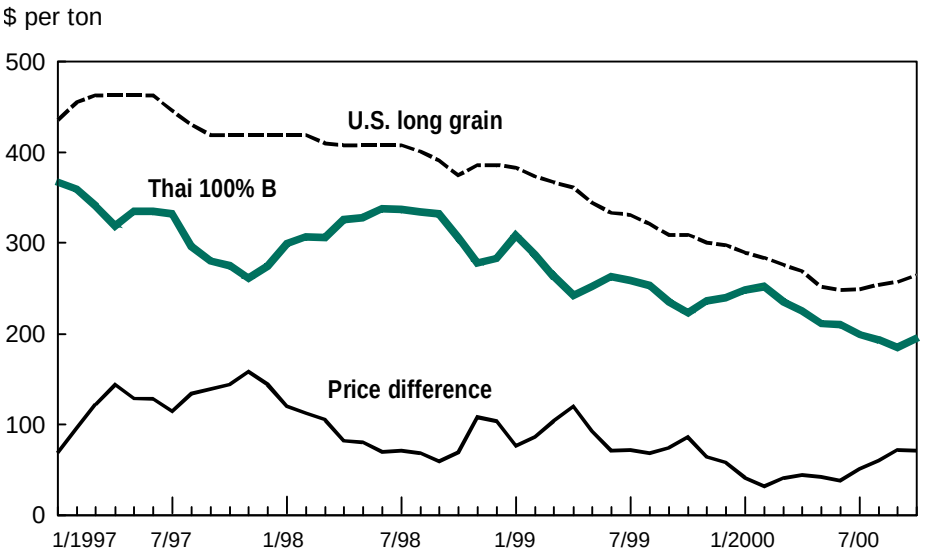
Medium grain plantings in the South—about 10 percent of the region's rice acreage—are up slightly this year following an increase of more than 20 percent in 1999.

Total medium/short grain use is projected to rise 15 percent to almost 61 million cwt. The domestic market accounts for nearly all of the growth as some processors are expected to shift from long to medium grain. Cereal makers and brewers can shift between rice from California and from the South as relative prices change. Exports are projected to expand fractionally.

Given expectations of substantially larger supplies, farm prices for medium grain rice are likely to be lower this year. So far, there has been little buying of the 2000 medium grain crop grown in California. However, prices for California milled rice began dropping in late July in anticipation of a record medium grain crop this year. Prices are currently quoted at $375 per ton, down from $441 at planting time. California medium grain rice typically sells at a premium to southern long grain rice.

**Price Difference Widening Between U.S. and Thai Rice**




Monthly average of weekly price quotes for milled rice. U.S. long grain is No.2, 4 percent brokens. Marketing year August-July. 2000/01 projected.

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## *Supplies Abundant in Major Exporting Countries…*

Tight U.S. supplies, especially for long grain rice, are not expected to significantly boost U.S. prices, primarily because international prices are extremely low. By late September, with abundant supplies in exporting countries and modest import growth, international prices were the lowest since January 1987. Prices rose in early October due to problems stemming from severe flooding in South and Southeast Asia and a large sale of Thai rice to South Korea. Since then, however, prices have contracted somewhat on an absence of major new sales.

The U.S. price differential over Thai prices had been widening since June and was more than $80 per ton in mid-October, the largest since early November 1999.

With a few exceptions, none of the major rice exporters or importers is experiencing a crop shortfall this year. Global production is projected to drop more than 1 percent from the year-earlier record, resulting in an almost 7-percent drop in global ending stocks. But China, which accounts for most of the contraction in both production and stocks, has more than adequate supplies to meet domestic needs and remain a major exporter.

Major exporters of *indica* rice are Thailand, Vietnam, China, the U.S. (southern long grain), India, and Pakistan (see *AO* December 1999 for a discussion of rice types). Indica accounts for nearly 80 percent of global rice trade, and these top six exporters account for more than 80 percent of global rice shipments. Except for Pakistan—which is experiencing a shortage of irrigation water—and the U.S., the major exporters are forecast to ship more rice in 2001. Pakistan's exports are projected to drop slightly, and U.S. exports are projected to be flat.

The severe flooding that occurred in parts of South and Southeast Asia is reported to have caused some crop damage in Thailand and Vietnam, although reduction of their exports is not expected in 2000 or 2001. Cambodia and Laos also experienced severe flooding, reducing 2000/01 production.

Parts of Bangladesh (a major importer) and eastern India have experienced severe flooding as well, but it is too early to assess any crop damage to these two countries. Rice farmers in these two areas can harvest up to 3 crops a year. Thus, damage to one crop can often be offset by larger production from the following crop.

Argentina and Uruguay, also exporters of indica, are projected to produce smaller crops in 2000/01. Nevertheless, both will have more than enough rice to supply virtually all the import needs of Brazil, which purchases the bulk of their exports. However, in some years when supplies were inadequate in Argentina and Uruguay, the U.S. has supplied a large share of Brazil's imports.

Among *japonica* exporters—Australia, Egypt, the European Union, China, and the U.S.—supplies are more than adequate to meet expected global import needs. Japonica rice (including California medium grain) accounts for about 12 percent of global rice trade. *Aromatic* rices—primarily Thai jasmine and basmati from India and Pakistan—and *glutinous* rice—mostly from Southeast Asia—account for the remainder of global rice trade.

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### *…As Major Importers Harvest Bumper Crops*

Supplies are abundant in the major importing countries as well. The world's largest rice importers are Indonesia, Iran, the Philippines, Nigeria, Brazil, Bangladesh, Iraq, Saudi Arabia, Japan, Malaysia, and Senegal. Except for Japan, these countries import mostly indica rice. Among them, only Iran is suffering from a production shortfall that is pushing imports higher in both 2000 and 2001. Record or near-record crops are projected for Indonesia, the Philippines, Bangladesh, and Malaysia. Nigeria's crop, although not a record, is the largest in several years.

Even with bumper crops in several major importing countries, global import demand is projected to rise in 2001. Total global imports are projected to rise nearly 10 percent in 2001 to 24.6 million tons. However, trade remains well below the 1998 record of more than 27.3 million tons.

Indonesia, the world's largest rice importing country, accounts for the bulk of the expansion, with imports projected to rise from 2 million tons this year to 3 million in 2001. With stagnant production, Indonesia cannot meet growing domestic demand. The Philippines is also projected to import more rice in 2001, a result of growing demand and fractionally smaller production. Bangladesh's imports are projected higher in 2001 even with a near-record 2000/01 crop. However, import levels for these three top buyers remain below their 1998 records.

Imports are projected higher for Saudi Arabia, which does not grow rice, as well as for Nigeria and Senegal. Growing imports in these countries are largely the result of rising populations and higher incomes. In contrast, Brazil's imports are projected to be flat in 2000 due to large supplies resulting from bumper crops in 1998/99 and 1999/2000.

Little trade growth is projected in the japonica market. Imports in Japan—the largest importer of japonica rice—are driven by World Trade Organization (WTO) requirements and are not expected to exceed minimum access levels. South Korea, Turkey, and Jordan also import japonica rice. Like Japan, South Korea's imports are driven by WTO requirements and are not expected to exceed minimum access levels. Small but steady import growth is projected for the eastern Mediterranean. AO

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